

# EXHIBIT \_\_ (EL-2)



**Research Update:**

**SCANA Corp. And Subsidiaries  
Downgraded To 'BBB-' After Court  
Rejects Company's Request;  
CreditWatch Negative Maintained**

**Primary Credit Analyst:**

Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit.jepsen@spglobal.com

**Secondary Contact:**

Vinod Makkar, CFA, Toronto + 1 (416) 507 3271; vinod.makkar@spglobal.com

**Table Of Contents**

Overview

Rating Action

Rationale

CreditWatch

Ratings Score Snapshot

Issue Ratings--Subordination Risk Analysis

Related Criteria

Ratings List

## Research Update:

# SCANA Corp. And Subsidiaries Downgraded To 'BBB-' After Court Rejects Company's Request; CreditWatch Negative Maintained

## Overview

- On Aug. 6, 2018, a federal judge denied South Carolina Electric & Gas Co.'s (SCE&G) request for a preliminary injunction to halt an experimental rate reduction tied to cost recovery of the construction costs of the cancelled V.C. Summer nuclear generation units 2 and 3 project. SCE&G is a subsidiary of SCANA Corp.
- Following a South Carolina General Assembly law requiring the 15% experimental rate reduction, the South Carolina Public Service Commission (PSC) lowered SCE&G's monthly rates roughly \$31 million related to the cancelled construction project.
- The rate reduction is temporary until the PSC rules on SCE&G's permanent rate recovery of the abandoned project.
- After this rate reduction, we expect weaker financial measures and therefore we are lowering our ratings, including our issuer credit ratings to 'BBB-' from 'BBB', on SCANA and its subsidiaries SCE&G and Public Service Co. of North Carolina Inc. (PSNC).
- We are revising our comparable ratings analysis modifiers on SCANA and SCE&G to negative from neutral to reflect less credit supportive financial metrics after the 15% rate reduction.
- We are maintaining the ratings on CreditWatch with negative implications due to uncertainty regarding the PSC's final decision about rate recovery of the V.C. Summer nuclear construction project expected around year-end 2018.

## Rating Action

On Aug. 9, 2018, S&P Global Ratings lowered its ratings, including the issuer credit ratings, on SCANA Corp. and its subsidiaries, South Carolina Electric & Gas Co. (SCE&G) and Public Service Co. of North Carolina Inc. (PSNC), by one notch to 'BBB-' from 'BBB'. The ratings remain on CreditWatch, where they were placed with negative implications on Sept. 29, 2017. We lowered the short-term ratings on SCANA, SCE&G, PSNC, and South Carolina Fuel Co. to 'A-3' from 'A-2' and maintained them on CreditWatch negative.

*Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB-' After Court Rejects Company's Request; CreditWatch Negative Maintained*

## Rationale

The rating actions follow the Aug. 6, 2018, federal court denial of SCE&G's request for a preliminary injunction to halt a temporary 15% rate reduction tied to V.C. Summer cost recovery. On June 28, 2018, the South Carolina General Assembly passed a law requiring the PSC to order SCE&G to lower electric rates associated with the cancelled V.C. Summer nuclear construction project by 15%, equivalent to a roughly \$31 million per month rate reduction at the utility. The bill retroactively reduces rates from April 1, 2018, until the PSC issues a ruling regarding final cost recovery regarding the cancelled construction of the nuclear units.

The downgrade on SCANA and its subsidiaries reflects our expectation of reduced consolidated credit metrics over the next two years, even after incorporating the company's announced cut to its dividend payments. We assess SCANA's financial measures using more relaxed financial benchmarks relative to typical corporate issuers, reflecting the company's mostly utility operations. For 2018, our base-case scenario assumes a \$279 million rate reduction and \$750 million of capital spending. We anticipate a weakening of the consolidated company's credit measures with adjusted funds from operations (FFO) to debt of about 16% in 2018, with a further decline in 2019 to about 12% if the temporary 15% reduction is made permanent. We have thus revised our comparable ratings analysis modifier on the consolidated company to negative from neutral to reflect credit metrics at the lower end of the significant financial risk profile category.

## CreditWatch

The CreditWatch with negative implications on SCANA and its subsidiaries reflects our view of ongoing uncertainty regarding cost recovery of the abandoned V.C. Summer nuclear construction project. We could lower ratings again if credit metrics weaken further beyond those in our base-case scenario, which assumes the temporary rate cut is made permanent. This could occur following the pending Summer abandonment proceeding if the PSC orders a permanent rate reduction or rate credits that lead to incrementally weaker financial measures than those resulting from the temporary 15% rate cut. Conversely, we could affirm ratings if the PSC does not require further rate credits or rate reductions beyond the 15% rate reduction already assumed in our base-case scenario.

## Ratings Score Snapshot

Issuer Credit Rating: BBB-/Watch Neg/A-3

Business risk: Strong

- Country risk: Very low

*Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB-' After Court Rejects Company's Request; CreditWatch Negative Maintained*

- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Negative (-1 notch)
- Stand-alone credit profile: bbb-
- Group credit profile: bbb-

## Issue Ratings--Subordination Risk Analysis

### Capital structure

SCANA's capital structure consists of about \$1.2 billion of unsecured debt issued by SCANA and \$5.8 billion of debt issued by its subsidiaries.

### Analytical conclusions

- We rate SCANA's unsecured debt one notch below the issuer credit rating because it ranks behind a significant amount of debt issued by subsidiaries.
- The junior subordinated debt at SCANA is rated two notches below the issuer credit rating to reflect subordination and deferability.
- Secured debt at SCE&G benefits from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral provides coverage of more than 1.5x, supporting a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.
- Regarding unsecured debt at the utility subsidiaries, we rate this debt the same as the issuer credit rating because it is the debt of a qualified investment-grade utility.
- Preferred stock at SCE&G is two notches below the issuer credit rating to reflect subordination and deferability.

*Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB-' After Court Rejects Company's Request; CreditWatch Negative Maintained*

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Ratings List

Downgraded; CreditWatch Action

|   | To                 | From               |
|---|--------------------|--------------------|
| SCANA Corp.                               |                    |                    |
| South Carolina Electric & Gas Co.         |                    |                    |
| Public Service Co. of North Carolina Inc. |                    |                    |
| Issuer Credit Rating                      | BBB-/Watch Neg/A-3 | BBB-/Watch Neg/A-2 |
| South Carolina Fuel Co.                   |                    |                    |
| Issuer Credit Rating                      | --/Watch Neg/A-3   | --/Watch Neg/A-2   |
| SCANA Corp.                               |                    |                    |
| Senior Unsecured                          | BB+/Watch Neg      | BBB-/Watch Neg     |
| Junior Subordinated                       | BB-/Watch Neg      | BB+/Watch Neg      |
| Commercial Paper                          | A-3/Watch Neg      | A-2/Watch Neg      |

*Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB-' After Court Rejects Company's Request; CreditWatch Negative Maintained*

Public Service Co. of North Carolina Inc.

|                  |                |               |
|------------------|----------------|---------------|
| Senior Unsecured | BBB-/Watch Neg | BBB/Watch Neg |
| Commercial Paper | A-3/Watch Neg  | A-2/Watch Neg |

South Carolina Electric & Gas Co.

|                  |                |               |
|------------------|----------------|---------------|
| Senior Secured   | BBB+/Watch Neg | A-/Watch Neg  |
| Recovery Rating  | 1+             | 1+            |
| Preferred Stock  | BB/Watch Neg   | BB+/Watch Neg |
| Commercial Paper | A-3/Watch Neg  | A-2/Watch Neg |

South Carolina Fuel Co.

|                  |               |               |
|------------------|---------------|---------------|
| Commercial Paper | A-3/Watch Neg | A-2/Watch Neg |
|------------------|---------------|---------------|

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.